

REPORT OF EXAMINATION

**HARLAN COUNTY
SCHOOL DISTRICT**

**FOR THE SCHOOL YEAR
ENDED JUNE 30, 2008**

Gaw & Associates, PLLC
Certified Public Accountants

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Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Harlan County School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Harlan County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008, on our consideration of the Harlan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 36 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

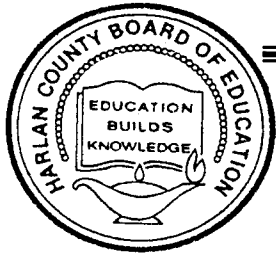
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harlan County School District's basic financial statements. The additional information shown on pages 42 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Harlan County School District. The additional information shown on pages 42 through 55 and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

October 31, 2008



Management Discussion & Analysis (MD&A)

The discussion and analysis of Harlan County School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2008 ("FY 2008"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for FY 2008 are as follows:

- The ending cash balance for the District was \$6.6 million in 2008 and \$22.9 million in 2007. This change was the result of construction expenditures.
- From 2007 to 2008 total general fund revenue increased by 5%.
- Among major funds, the General Fund had \$30.4 million in revenue, which primarily consists of ad valorem, utility, federal and state funding (the SEEK program). There were \$29.6 million in expenditures.

Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance and Findings and Recommendations.

Overview of the Financial Statements

District-wide Financial Statements – Statement of Net Assets and the Statement of Activities

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, “How did we do financially during the previous year?” The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district’s property tax base, current property tax laws in Kentucky, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-type activities.

The district-wide financial statements can be found on pages 12 – 13 of this report.

Fund Financial Statements

The analysis of the district’s major funds begins on page 14. Fund financial reports provided detailed information about the district’s major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district’s most significant funds and not the district as a whole. The district’s major governmental funds are the General Fund, Special Revenue Fund, Construction Fund and the Debt Service Fund.

Governmental Funds

Nearly all of this district activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balance left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The district is the trustee, or fiduciary, for student body funds. All of the district’s fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets and Liabilities* on page 21. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 23 of this report.

Financial analysis of the District as a Whole

As stated earlier the *Statement of Net Assets* and the *Statement of Activities* provide a financial glimpse of the District as a whole. Table 1 (Net Assets Summary) provides a summary of the district's net assets for FY 2008 as contained in the Statement of Net Assets and compares that information to FY 2007. As the table shows, our total net assets as of June 30, 2008 were \$18.5 million, a increase of \$3.5 million from the prior year.

Table 1: Summary of Net Assets

	June 30, 2007	June 30, 2008	Change	Percentage Change
Assets				
Current and Other Assets	\$ 24,522,649	\$ 11,485,518	\$ (13,037,131)	-53%
Capital Assets	43,367,923	59,841,657	16,473,734	38%
<i>Total Assets</i>	<u>67,890,572</u>	<u>71,327,175</u>	<u>3,436,603</u>	<u>5%</u>
Liabilities				
Current Liabilities	4,583,272	4,872,280	289,008	6%
Long-Term Liabilities	48,251,174	47,940,944	(310,230)	-1%
<i>Total Liabilities</i>	<u>52,834,446</u>	<u>52,813,224</u>	<u>(21,222)</u>	<u>0%</u>
Net Assets				
Invested in Capital Assets, Net of Debt	(4,883,251)	8,809,671	13,692,922	-280%
Restricted	19,704,430	5,895,268	(13,809,162)	-70%
Unrestricted	234,947	3,809,012	3,574,065	1521%
<i>Total Net Assets</i>	<u>\$ 15,056,126</u>	<u>\$ 18,513,951</u>	<u>\$ 3,457,825</u>	<u>23%</u>

In comparing FY 2008 to the prior year we note the following:

- Current assets decreased because of a construction costs incurred on the Harlan County High School.
- Capital assets increased because of construction of the Harlan County High School building and additional items purchased and capitalized by the district.
- Long-term liabilities decreased because of bond payments made during year and the refunding of a bond issue.

Table 2 (Change in Net Assets) reflects data extracted from the *Statement of Activities* and shows the changes in net assets from FY 2007 to FY 2008.

Table 2: Changes in Net Assets

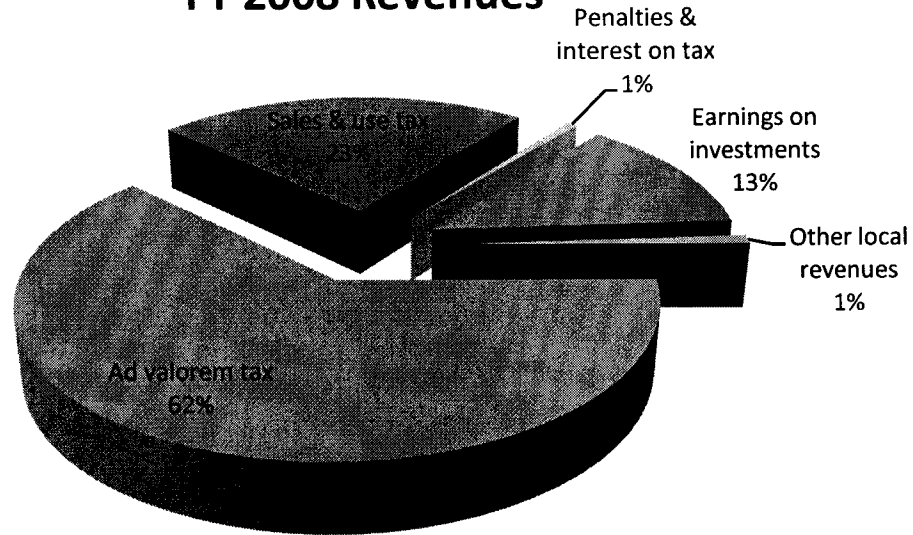
	June 30, 2007	June 30, 2008	Change	Percentage Change
Revenues				
Program Revenues:				
Charges for Services	\$ 375,271	\$ 354,467	\$ (20,804)	-6%
Operating Grants and Contributions	35,643,413	36,272,983	629,570	2%
Capital Grants and Contributions	1,562,603	2,837,332	1,274,729	82%
General Revenues:				
Ad valorem tax	3,845,820	3,794,176	(51,644)	-1%
Sales & use tax	1,218,088	1,406,113	188,025	15%
Penalties & interest on tax	27,091	38,588	11,497	42%
Other tax	46,464	50,856	4,392	9%
Tuition	1,398,826	799,392	(599,434)	-43%
Earnings on investments	12,132	58,321	46,189	381%
Total local revenue	6,548,421	6,147,446	(400,975)	-6%
Other revenues	115,110	408,278	293,168	255%
Gains (Loss) on sale of fixed assets	(27,389)	83,154	110,543	-404%
Total Revenues	44,217,429	46,103,660	1,886,231	4%
Program Expenses:				
Instruction	\$ 21,622,082	\$ 22,220,653	598,571	3%
Support services				
Student	1,895,359	1,943,080	47,721	3%
Instruction staff	2,202,199	2,067,851	(134,348)	-6%
District administration	1,132,721	1,276,859	144,138	13%
School administration	2,603,834	2,705,203	101,369	4%
Business	582,974	592,291	9,317	2%
Plant operation and maintenance	4,151,683	4,395,476	243,793	6%
Student transportation	2,349,253	2,552,862	203,609	9%
Total support services	14,918,023	15,533,622	615,599	4%
Community service activities	701,740	691,790	(9,950)	-1%
Facilities acquisition and construction	3,295	(61,805)	(65,100)	-1976%
Bond Issuance Cost	-	234,019	234,019	100%
Interest Expense	1,806,649	2,126,226	319,577	18%
Food Service	2,493,502	2,966,639	473,137	19%
Total Expenses	41,545,291	43,711,144	2,165,853	5%
Change in Net Assets	\$ 2,672,138	\$ 2,392,516	\$ (279,622)	-10%

The most significant changes resulted from the following:

- Total local revenue decreased because of a downturn in the economy.
- Operating Grants and Revenues and Capital Grants and Contributions increased because of an increase in grants received and an increase funding of debt service payments.
- Depreciation Expense was allotted to individual expense accounts this year.

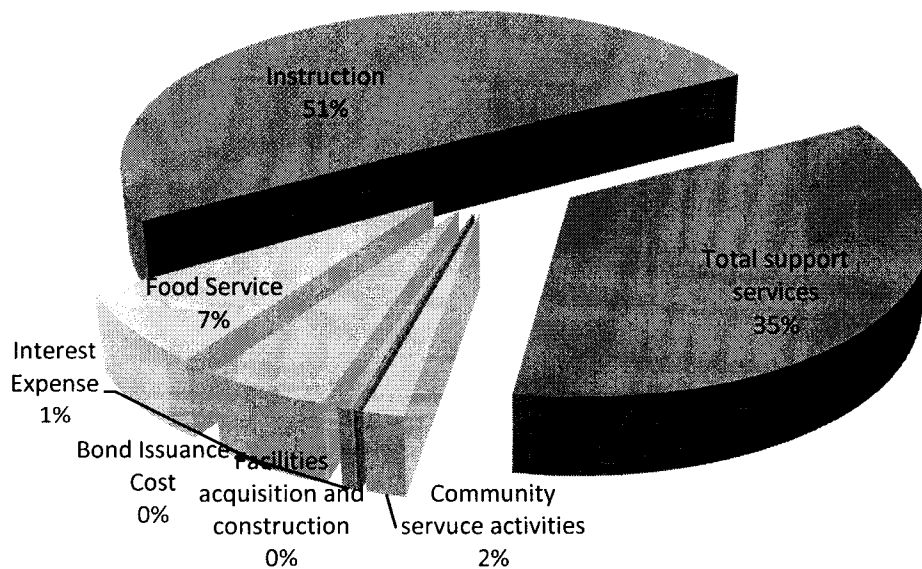
District programs for FY 2008 cost \$43.5 million. To support those programs the district garnered \$40.3 million in program revenues. The balance of support came from property taxes and other general revenues. The chart below shows FY 2008 revenues by category.

FY 2008 Revenues



Instruction comprises 51% of district expenses. Support service expenses make up 35% of the total, with the balance being interest and fiscal charges. The following chart displays FY2008 expenses by category.

FY 2008 Expenses



Governmental Activities

The *Statement of Activities* on page 13 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extract information from the *Statement of Activities* and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services decreased by \$1.5 million primarily due to decrease in interest expense.

Table 3: Net Cost of Services

	June 30, 2007	June 30, 2008	Change	Percentage Change
Instruction	\$ 1,919,175	\$ 1,657,020	\$ (262,155)	-14%
Support services				
Student	199,974	179,619	(20,355)	-10%
Instruction staff	167,418	181,239	13,821	8%
District administration	135,830	245,566	109,736	81%
School administration	312,238	234,752	(77,486)	-25%
Business	39,316	42,645	3,329	8%
Plant operation and maintenance	497,848	1,188,495	690,647	139%
Student transportation	271,125	215,064	(56,061)	-21%
Community service activities	2,024	57,329	55,305	2732%
Facilities acquisition and construction	-	(61,805)	(61,805)	100%
Bond Issuance Cost	-	234,019	234,019	100%
Interest Expense	1,806,649	(399,268)	(2,205,917)	-122%
<i>Total Expenses</i>	<u>\$ 5,351,597</u>	<u>\$ 3,774,675</u>	<u>\$ (1,576,922)</u>	<u>-29%</u>

The program expense categories shown in Table 3 are summarized below.

- “Instruction” expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- “Instruction-related services” and “pupil services” include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- “General administration” costs include expenses associated with the administrative and financial supervision of the district.
- “Plant services” involve keeping the school grounds, buildings, and equipment in good working condition.
- “Facilities acquisition and construction” represents the difference between the amount spent on our facilities and the amount capitalized.
- “Interest and fiscal charges” involve the transactions associated with the payment of interest and other charges related to debt of the district.

Financial Analysis of the District's Funds

The district's governmental funds report a combined fund balance of \$1.8 million, which is significantly increased from last year's total of \$1.2 million. Table 4 (Governmental Fund Balances) provides an analysis of the district's fund balances and the total change in fund balances from the prior year.

Table 4: Governmental Fund Balances

	June 30, 2007	June 30, 2008	Change	Percentage Change
Fund:				
General	\$ 1,996,362	\$ 2,693,954	\$ 697,592	35%
Capital Outlay	1,900	1,900	-	0%
Building Fund	1,143,483	734,390	(409,093)	-36%
Construction Fund	18,091,521	4,274,782	(13,816,739)	-76%
Debt Service Fund	465,626	374,562	(91,064)	100%
<i>Total Expenses</i>	<u>\$ 21,698,892</u>	<u>\$ 8,079,588</u>	<u>\$ (13,619,304)</u>	<u>-63%</u>

The following information helps explain the changes from the prior year.

- Board initiative to decrease cost of operations
- Construction of Harlan County High School continuing.

General Fund Budgetary Highlights

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting.

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. This district adopted a budget for 2008 and 2009 that satisfies the statute requirement. The general fund revenues and expenditures for the 2008 and 2009 budget cycle is \$25.3 million & \$24.6 million respectively.

We do a draft, tentative and working budget. We made minor amendments the working budget for 2008 based upon unexpected changes in the revenues received or expenditures. The working budget is amended only if there is a significant change in revenues or expenditures. Revenue estimates increased by \$1.7 million primarily due to higher than expected SEEK Allotment and Ad Valorem tax revenue. Expenditure appropriations increased by \$1.45 million. Expenditure appropriation adjustments were made to reflect actual staffing, restoration of previously cut programs, increased cost of contracted services, and other changes during the year.

Major differences between final budget amounts and actual revenues and expenditures are identified as follows:

- On behalf adjustment

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Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the district had \$80.7 million invested in land, building, equipment (including computer equipment, furniture and vehicles), and construction in progress. Table 5 (Capital Assets) shows FY 2008 balances as compared to FY 2007.

Table 5: Capital Assets

	June 30, 2007	June 30, 2008	Change	Percentage Change
Land	\$ 1,967,475	\$ 1,967,475	\$ -	0%
Buildings and improvements	29,823,073	31,046,362	1,223,289	4%
Technology Equipment	5,565,670	6,238,736	673,066	12%
Vehicles	5,371,118	5,213,924	(157,194)	-3%
General equipment	674,294	682,325	8,031	1%
Construction in progress	19,425,523	35,577,387	16,151,864	100%
Total	62,827,153	80,726,209	17,899,056	28%
Less: Accumulated Depreciation	19,459,230	20,987,171	1,527,941	8%
Net Capital Assets	\$ 43,367,923	\$ 59,739,038	\$ 16,371,115	38%

In addition we had renovation completions on some school facilities, purchased a new technology equipment thus accounting for the difference in equipment value, and major construction was in progress on the Harlan County High School for the change in construction in progress. For more information see Note C to the Basic Financial Statements.

Long-Term Debt

At June 30, 2008 the district had \$50.5 million in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining \$284,314 in long term obligations is the amount of compensated absences liability recorded by the district at year end, an increase of \$5,580 from the prior year.

Table 6 (Long-Term Debt) shows the district's outstanding debt as of June 30, 2008 as well as comparable data for the prior year. A more detailed discussion is included in Note D to the Basic Financial Statements.

Table 6: Long-Term Debt

	June 30, 2007	June 30, 2008	Change	Percentage Change
General obligation bonds	\$ 50,139,315	\$ 50,197,440	\$ 58,125	0%
Compensated absences	278,734	284,314	5,580	2%
Net Capital Assets	\$ 50,418,049	\$ 50,481,754	\$ 63,705	0%

Factors bearing on the District's Future

- Attendance percentage.
- Continued decrease of area population.
- Property valuation flux.
- Economic downturn

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District's Finance Department at (606) 573-4330 or 251 Ball Park Road, Harlan, Kentucky 40831.

Harlan County School District

Statement of Net Assets - District Wide

As of June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 5,978,341	\$ 465,782	\$ 6,444,123
Investments	2,124,061	-	2,124,061
Accounts receivable			
Taxes	28,470	-	28,470
Intergovernmental - State	398,013	-	398,013
Intergovernmental - Federal	814,046	-	814,046
Other	1,211	-	1,211
SFCC	1,248,285	-	1,248,285
Inventory	-	52,747	52,747
Prepaid Debt Service	374,562	-	374,562
Total current assets	10,966,989	518,529	11,485,518
Noncurrent Assets			
Capital assets	80,726,200	1,508,659	82,234,859
Less: Accumulated depreciation	(20,987,162)	(1,406,040)	(22,393,202)
Total noncurrent assets	59,739,038	102,619	59,841,657
Total assets	\$ 70,706,027	\$ 621,148	\$ 71,327,175
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 289,345	\$ -	\$ 289,345
Accrued payroll and withholding obligations	67,908	-	67,908
Sick leave payable	142,192	-	142,192
Accrued interest payable	834,546	-	834,546
Deferred Revenue	1,139,671	-	1,139,671
Current portion of KISTA payable	28,618	-	28,618
Current portion of bonds payable	2,370,000	-	2,370,000
Total current liabilities	4,872,280	-	4,872,280
Noncurrent Liabilities			
Sick leave payable	142,122	-	142,122
KISTA Payable	217,822	-	217,822
Bonds payable	47,581,000	-	47,581,000
Total noncurrent liabilities	47,940,944	-	47,940,944
Total liabilities	\$ 52,813,224	\$ -	\$ 52,813,224
NET ASSETS			
Invested in capital assets, net of related debt	\$ 8,707,052	\$ 102,619	\$ 8,809,671
Restricted for:			
Encumbrances	456,887	-	456,887
Capital outlay	5,011,072	-	5,011,072
Bonded debt payments	374,562	52,747	427,309
Unrestricted	3,343,230	465,782	3,809,012
Total net assets	\$ 17,892,803	\$ 621,148	\$ 18,513,951

The accompanying notes to the financial statements are an integral part of these financial statements.

Statement of Activities - District Wide

For the year ended June 30, 2008

FUNCTIONS/PROGRAMS

Governmental Activities

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Instruction	\$ 22,220,653	\$ -	\$ -	\$ (1,657,020)	\$ -	\$ (1,657,020)
Support services						
Student	1,943,080	-	-	(179,619)	-	(179,619)
Instruction staff	2,067,851	1,763,461	-	(181,239)	-	(181,239)
District administration	1,276,859	1,886,612	-	(245,566)	-	(245,566)
School administration	2,705,203	1,031,293	-	(234,752)	-	(234,752)
Business	592,291	2,470,451	-	(42,645)	-	(42,645)
Plant operation and maintenance	4,395,476	549,646	-	(1,188,495)	-	(1,188,495)
Student transportation	2,552,862	3,206,981	-	(215,064)	-	(215,064)
Community service activities	691,790	2,337,798	-	(57,329)	-	(57,329)
Facilities acquisition and construction	(61,805)	634,461	-	61,805	-	61,805
Bond Issuance Cost	234,019	-	-	(234,019)	-	(234,019)
Interest Expense	2,126,226	-	-	399,268	-	399,268
Total governmental activities	40,744,505	34,444,337	2,525,494	(3,774,674)	-	(3,774,674)
Business-type Activities						
Food service	2,966,639	354,467	311,838	-	(471,688)	(471,688)
Total business-type activities	2,966,639	354,467	311,838	-	(471,688)	(471,688)
Total school district	\$ 43,711,144	\$ 354,467	\$ 36,272,983	\$ (3,774,674)	\$ (471,688)	\$ (4,246,362)

General Revenues

Ad valorem tax	\$ 3,794,176	\$ -	\$ 3,794,176
Sales & use tax	1,406,113	-	1,406,113
Penalties & interest on tax	38,588	-	38,588
Other tax	50,856	-	50,856
Earnings on investments	771,865	27,527	799,392
Other local revenues	58,321	-	58,321
Other revenues	408,278	-	408,278
Gains (Loss) on sale of fixed assets	83,154	-	83,154
Total General Revenues	6,611,351	27,527	6,638,878
Change in net assets	2,836,677	(444,161)	2,392,516
Net assets - beginning	15,056,126	1,065,309	16,121,435
Net assets - ending	\$ 17,892,803	\$ 621,148	\$ 18,513,951

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Balance Sheet - Governmental Funds

As of June 30, 2008

	ASSETS				Total	
	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Nonmajor	Governmental Funds
Cash and cash equivalents	\$ 1,539,859	\$ 33,089	\$ 4,268,560	\$ -	\$ 136,833	\$ 5,978,341
Investments	1,518,382	-	6,222	-	599,457	2,124,061
Accounts receivable						
Taxes	28,470	-	-	-	-	28,470
Intergovernmental - State	-	398,013	-	-	-	398,013
Intergovernmental - Federal	-	814,046	-	-	-	814,046
Other	-	1,211	-	-	-	1,211
Prepaid debt service	-	-	-	374,562	-	374,562
Total assets	\$ 3,086,711	\$ 1,246,359	\$ 4,274,782	\$ 374,562	\$ 736,290	\$ 9,718,704
Accounts payable	\$ 182,657	\$ 106,688	\$ -	\$ -	\$ -	\$ 289,345
Payroll taxes payable	67,908	-	-	-	-	67,908
Sick leave payable	142,192	-	-	-	-	142,192
Deferred revenue	-	1,139,671	-	-	-	1,139,671
Total liabilities	\$ 392,757	\$ 1,246,359	\$ -	\$ -	\$ -	\$ 1,639,116
Reserved for:						
Encumbrances	456,887	-	-	-	-	456,887
Capital outlay	-	-	4,274,782	-	736,290	5,011,072
Bonded debt payments	-	-	-	374,562	-	374,562
Unreserved:						
Designated						
Worker's Compensation	479,000	-	-	-	-	479,000
Other designated	276,000	-	-	-	-	276,000
Undesignated	1,482,067	-	-	-	-	1,482,067
Total fund balances	\$ 2,693,954	\$ -	\$ 4,274,782	\$ 374,562	\$ 736,290	\$ 8,079,588
Total liabilities and fund balances	\$ 3,086,711	\$ 1,246,359	\$ 4,274,782	\$ 374,562	\$ 736,290	\$ 9,718,704

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Balance Sheet - Governmental Funds

As of June 30, 2008

Total fund balances	\$ 8,079,588
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	59,739,038
Accounts receivables for SFCC are not current financial resources and therefore are not reported as revenues in governmental funds.	-
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	1,248,285
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but is presented in the statement of net assets.	(144,877)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(834,546)
Net assets of governmental activities	(50,194,685)
	<u>\$ 17,892,803</u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2008

Revenues	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Nonmajor	Total Governmental Funds
From local sources						
Ad valorem tax	\$ 3,283,540	\$ -	\$ -	\$ -	\$ 510,636	\$ 3,794,176
Sales & use tax	1,406,113	-	-	-	-	1,406,113
Penalties & interest on tax	38,588	-	-	-	-	38,588
Other tax	50,856	-	-	-	-	50,856
Earnings on investments	230,938	5,049	445,602	-	90,276	771,865
Other local revenues	24,762	33,559	-	-	-	58,321
State sources						
SEEK	19,866,522	-	-	-	-	19,866,522
Other	19,924	2,011,552	-	-	1,144,740	3,176,216
Expenditure Reimburseme	4,000	-	-	-	-	4,000
Revenue in lieu of tax	54,248	-	-	-	-	54,248
On behalf payments	5,325,906	172,948	-	-	-	5,498,854
SFCC	-	-	-	2,525,494	-	2,525,494
Federal sources						
Ristricted throught state	-	5,587,860	-	-	-	5,587,860
Intermediate agencies	-	72,355	-	-	-	72,355
Reimbursements	83,195	-	-	-	-	83,195
Other revenues	1,622	1,211	-	-	-	2,833
Total revenues	30,390,214	7,884,534	445,602	2,525,494	1,745,652	42,991,496
Expenditures						
Instruction	16,494,358	5,817,144	-	-	-	22,311,502
Support services						
Student	1,648,702	274,102	-	-	-	1,922,804
Instruction staff	1,269,155	787,928	-	-	-	2,057,083
District administration	1,124,479	-	-	-	-	1,124,479
School administration	2,693,676	-	-	-	-	2,693,676
Business	539,183	60,128	-	-	-	599,311
Plant operation and mainte	3,496,757	-	-	-	-	3,496,757
Student transportation	2,379,528	169,509	-	-	-	2,549,037
Community service activities	679	691,111	-	-	-	691,790
Facilities acquisition and const	-	-	17,313,339	-	-	17,313,339
Debt Service	-	-	-	7,276,788	-	7,276,788
Total expenditures	29,646,517	7,799,922	17,313,339	7,276,788	-	62,036,566
Excess (deficit) of revenues over	743,697	84,612	(16,867,737)	(4,751,294)	1,745,652	(19,045,070)
Other Financing Sources (Uses)						
Proceeds of long-term capital-i	-	-	-	4,930,000	-	4,930,000
Gain (Loss) on sale of equipm	90,321	-	-	-	-	90,321
Operating transfers in	108,228	90,388	3,261,637	4,426,211	-	7,886,464
Operating transfers out	(244,654)	(175,000)	(210,639)	(4,695,981)	(2,154,745)	(7,481,019)
Total other financing sources:	(46,105)	(84,612)	3,050,998	4,660,230	(2,154,745)	5,425,766
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	697,592	-	(13,816,739)	(91,064)	(409,093)	(13,619,304)
Fund balance, Beginning	1,996,362	-	18,091,521	465,626	1,145,383	21,698,892
Fund balance, Ending	\$ 2,693,954	\$ -	\$ 4,274,782	\$ 374,562	\$ 736,290	\$ 8,079,588

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the year ended June 30, 2008

Net change in fund balances--total governmental funds \$ (13,619,304)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 16,378,273

Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets. 2,166,875

Bond proceeds are recognized as other financing sources and uses in the governmental fund statements but are increases of liabilities in the statement of net assets. (2,225,000)

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities. 44,668

Proceeds from the sale of assets are recognized as revenue in the governmental fund financial statements, but only the gain on the sale of assets is recognized as revenue in the statement of activities (7,167)

Accounts receivable for SFCC are not recognized as revenue of current financial resources in the governmental fund financial statements, but are increases of assets in the statement of net assets. 101,087

Change in net assets of governmental activities \$ 2,836,677

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Net Assets - Proprietary Funds

As of June 30, 2008

ASSETS	Food Service Fund
Current Assets	
Cash and cash equivalents	\$ 465,782
Inventory	52,747
Total current assets	<u>518,529</u>
Noncurrent Assets	
Land	-
Furniture and equipment	1,508,659
Less: Accumulated depreciation	(1,406,040)
Total noncurrent assets	<u>102,619</u>
Total assets	<u>\$ 621,148</u>
LIABILITIES	
Current Liabilities	
Total current liabilities	<u>-</u>
Noncurrent Liabilities	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>\$ -</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 102,619
Restricted for:	
Inventory	52,747
Unrestricted	465,782
Total net assets	<u>\$ 621,148</u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenses, and Changes in

For the year ended June 30, 2008

	Food Service Fund
Operating Revenues	
Food service sales	\$ 325,058
Other operating revenues	29,409
Total operating revenues	<u>354,467</u>
Operating Expenses	
Salaries and wages	1,422,853
Professional and contract services	44,516
Supplies and materials	1,040,942
Payments to other funds	405,445
Depreciation	52,883
Total operating expenses	<u>2,966,639</u>
Operating income (loss)	<u>(2,612,172)</u>
Nonoperating revenues (expenses)	
Federal grants	1,801,393
State grants	27,253
On-Behalf payments	169,139
Commodities Received	142,699
Interest income	27,527
Total nonoperating revenues (expenses)	<u>2,168,011</u>
Operating transfers	
Transfers in (out)	<u>-</u>
Net income (loss)	<u>(444,161)</u>
Total net assets, beginning	<u>1,065,309</u>
Total net assets, ending	<u><u>\$ 621,148</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Cash Flows - Proprietary Funds

For the year ended June 30, 2008

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 325,058
Cash received from other activities	29,409
Cash payments to employees for services	(1,422,853)
Cash payments to other funds	(405,445)
Cash payments to suppliers for goods and services	(940,195)
Net cash from operating activities	<u>(2,414,026)</u>
Cash Flows from Capital Financing Activities	
Net cash from capital financing activities	<u>-</u>
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	1,997,785
Net cash from noncapital financing activities	<u>1,997,785</u>
Cash Flows from Investing Activities	
Interest on investments	27,527
Net cash flows from investing activities	<u>27,527</u>
Net increase in cash and cash equivalents	(388,714)
Cash and cash equivalents - beginning	854,496
Cash and cash equivalents - ending	<u>\$ 465,782</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ (2,612,172)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	52,883
Commodities usage	142,699
Changes in assets and liabilities:	
Inventory	7,690
Accounts payable	<u>(5,126)</u>
Net Cash Provided by Operating Activities	<u>\$ (2,414,026)</u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Fiduciary Net Assets - Fiduciary Funds

As of June 30, 2008

ASSETS	<u>Trust/Agency Fund</u>
Current Assets	
Cash and cash equivalents	\$ 165,160
Total current assets	<u>165,160</u>
Noncurrent Assets	
Total noncurrent assets	<u>-</u>
Total assets	<u><u>\$ 165,160</u></u>
LIABILITIES	
Current Liabilities	
Due to student groups	165,160
Total current liabilities	<u>165,160</u>
Noncurrent Liabilities	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u><u>\$ 165,160</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Harlan County School District

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

For the year ended June 30, 2008

	<u>Trust/Agency Fund</u>
Additions	
Net interest and investment gains (losses)	\$ 467
Other additions	<u>1,270,877</u>
Total additions	<u>1,271,344</u>
Deductions	
Other deductions	<u>1,301,746</u>
Total deductions	<u>1,301,746</u>
Change in net assets	<u>(30,402)</u>
Net assets - beginning	<u>195,562</u>
Net assets - ending	<u><u>\$ 165,160</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Note A – Summary of Significant Accounting Policies

The accounting and reporting framework and the more significant accounting principles and practices of Harlan County School District (District) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2008.

Accounting Principles

The District accounts for its financial transactions in accordance with the policies, procedures, applicable laws and regulations of the State of Kentucky. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U.S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA"); and it complies with the requirements of the appropriate version of contracts and grants of agencies from which it receives funds.

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials whom, together constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2008, the District does not have any component units and is not a component unit of any other reporting entity.

Harlan County Board of Education Finance Corporation

In a prior year the Board of Education resolved to authorize the establishment of the Harlan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund activities.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Agency funds have no measurement focus.

Basis of Accounting

Basis of account refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected with the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirement, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with nonexchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortizations, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses as appropriate. The District’s resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District’s accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Building Fund – The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

Construction (Capital Projects) Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Non-major Governmental Funds:

Capital Outlay Fund – The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

Agency Fund – The District accounts for activities of student groups and others in a custodial capacity in agency funds. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Proprietary Funds:

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Daycare fund is used to account for revenues and expenses related to services provided to daycare services to the surrounding community.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's Management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities, and Equity

Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

The District is authorized to deposit cash and invest excess fund pursuant to the regulations set forth by Kentucky Revised Statute. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in Note B.

Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid Expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are those purchased or acquired with an original cost of \$1,000 or more and are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciation assets are as follows:

<u>Description</u>	<u>Estimated Useful Lives in Years</u>
Buildings and improvements	25 – 50
Land improvements	20
Technology equipment	5
Vehicles	5 – 10
Audio-visual equipment	15
Food service equipment	10 – 12
Furniture and fixtures	7
Rolling stock	15
Other	10

Deferred Revenue

Cash received for federal and state special project and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Compensated Absences

Employees are allowed to accrue ten days of sick leave each year without limit. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (180 days for teachers and 240 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amounts of the debt issued, premiums, or discounts are reported as other financing sources/uses.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserves for revolving fund, inventory, prepaid expenditures, and legally restricted balances reflect the portions of fund balance represented by each respective account. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitation imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposed for which both restricted and unrestricted net assets are available.

Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1, and become delinquent February 1. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2007 fiscal year was based upon, was in excess of \$425 million.

Taxes are due on November 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2008 were 93% of the tax levy.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.386 per \$100 valuation for real property, \$.388 per \$100 valuation for business personal property, and \$.336 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Risk Management

The district is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases insurance coverage, from a private insurance agent, through a cooperative on a competitive bidding basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

There were no significant reductions in insurance coverage in the current fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivable and payable, as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Note B – Cash and Investments

For discussion of adopted deposit and investment policy and other related information, see Note A.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The District council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee or the District treasurer, or both. **Custodial credit risk** for deposits is not formally addressed by bond indentures or pension trust policy. Indentures require that restricted deposits be maintained by the trustee bank specified in the indenture. Pension trust investment policy restricts uninvested cash to minimal balances generally covered by the FDIC.

Deposits of the District's reporting entity are insured or collateralized with securities held by the District, its agent, or by the pledging financial institution's trust department or agent in the name of the District or applicable public trust.

Note C – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Land	\$ 1,967,475	\$ -	\$ -	\$ 1,967,475
Buildings and improvements	29,823,073	1,223,289	-	31,046,362
Technology Equipment	5,565,670	701,786	28,720	6,238,736
Vehicles	5,371,118	183,726	340,920	5,213,924
General equipment	674,294	8,031	-	682,325
Construction in progress	19,425,523	16,151,864	-	35,577,387
Totals at historical cost	<u>62,827,153</u>	<u>18,268,696</u>	<u>369,640</u>	<u>80,726,209</u>
Less: accumulated depreciation				
Buildings and improvements	10,502,677	886,771	-	11,389,448
Technology Equipment	4,382,386	691,918	27,728	5,046,576
Vehicles	4,219,721	271,184	334,745	4,156,160
General equipment	354,446	40,541	-	394,987
Total accumulated depreciation	<u>19,459,230</u>	<u>1,890,414</u>	<u>362,473</u>	<u>20,987,171</u>
Governmental Activities Capital Assets - Net	<u>\$ 43,367,923</u>	<u>\$ 16,378,282</u>	<u>\$ 7,167</u>	<u>\$ 59,739,038</u>
Business-Type Activities				
Food service and equipment	\$ 1,508,659	\$ -	\$ -	\$ 1,508,659
Totals at historical cost	<u>1,508,659</u>	<u>-</u>	<u>-</u>	<u>1,508,659</u>
Less: accumulated depreciation				
Food service and equipment	1,353,157	52,883	-	1,406,040
Total accumulated depreciation	<u>1,353,157</u>	<u>52,883</u>	<u>-</u>	<u>1,406,040</u>
Business-Type Activities Capital Assets - Net	<u>\$ 155,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,619</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities Depreciation Expense by Function	
Instruction	\$ 608,182
Support services	
Student	20,276
Instruction staff	10,768
District administration	152,380
School administration	11,527
Plant operation and maintenance	1,011
Student transportation	898,719
Community services	187,551
	<u>\$ 1,890,414</u>

Note D – Bonded Debt

The original amount of each issue, the issue date, and interest rates and summary of changes are summarized below:

Description	Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2007	Debt Issued	Debt Paid	Principal Balance 6/30/2008	Due Within One Year
BONDS:								
1989 Bond Issue	Aug-09	6.75% to 7.00%	\$ 410,000	\$ 105,000	\$ -	\$ 30,000	\$ 75,000	\$ 35,000
1990 B Bond Issue	Sep-09	6.00% to 7.25%	2,515,000	615,000	-	190,000	425,000	205,000
1997 Bond Issue	Sep-09	3.75% to 5.00%	1,550,000	720,000	-	225,000	495,000	255,000
1998 Bond Issue	Jul-18	4.25% to 4.75%	2,870,000	2,730,000	-	2,730,000	-	-
1999 A Bond Issue	Feb-19	4.45% to 4.70%	1,370,000	1,330,000	-	5,000	1,325,000	5,000
1999 B Bond Issue	Jun-19	4.20% to 5.65%	768,000	539,000	-	33,000	506,000	35,000
2000 A Bond Issue	Jun-08	4.20% to 5.65%	2,770,000	260,000	-	260,000	-	-
2000 B Bond Issue	Dec-20	4.50% to 5.20%	775,000	610,000	-	30,000	580,000	30,000
2001 Bond Issue	Jun-11	3.00% to 3.80%	1,740,000	1,555,000	-	240,000	1,315,000	525,000
2002 A Bond Issue	Dec-21	2.00% to 5.40%	350,000	300,000	-	15,000	285,000	15,000
2002 B Bond Issue	May-13	1.30% to 3.45%	2,850,000	2,070,000	-	175,000	1,895,000	175,000
2003 Bond Issue	Jun-14	1.20% to 3.30%	710,000	475,000	-	60,000	415,000	60,000
2004 A Bond Issue	Feb-24	1.30% to 4.50%	670,000	595,000	-	25,000	570,000	25,000
2004 B Bond Issue	Jun-24	3.00% to 4.75%	3,950,000	3,500,000	-	150,000	3,350,000	155,000
2003 C Bond Issue	May-24	1.75% to 4.90%	1,865,000	1,600,000	-	85,000	1,515,000	90,000
2004 D Bond Issue	Jun-25	2.55% to 4.60%	985,000	945,000	-	20,000	925,000	25,000
2006 Bond Issue	Jul-26	4.25% to 4.50%	31,920,000	31,920,000	-	575,000	31,345,000	595,000
2007 Bond Issue	Oct-27	3.625% to 4.00%	2,050,000	-	2,050,000	-	2,050,000	70,000
2008 Bond Issue	Aug-18	2.00% to 3.20%	2,880,000	-	2,880,000	-	2,880,000	70,000
2006 KISTA	Mar-17	3.50 to 3.875%	270,315	270,315	-	23,875	246,440	28,618
Accumulated Sick Leave				278,804	-	-	278,804	139,402
				<u>\$ 50,418,119</u>	<u>\$ 4,930,000</u>	<u>\$ 4,871,875</u>	<u>\$ 50,476,244</u>	<u>2,538,020</u>

Payments on the General Obligation Bonds are made from the Debt Service Fund using local revenues and SFCC Contributions. Compensated absences are paid by the general fund.

In connection with the school revenue bonds issued after May 1, 1989 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, to total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligation of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

Year Ending June 30,	SFCC Portion		School District Portion		Total
	Interest	Principal	Interest	Principal	
2009	\$ 1,074,055	\$ 1,593,996	\$ 1,012,474	\$ 761,004	\$ 4,441,529
2010	1,016,168	1,639,751	984,433	792,249	4,432,601
2011	953,790	1,401,820	951,562	782,180	4,089,352
2012	900,800	1,441,091	926,195	809,909	4,077,995
2013	845,394	1,499,016	896,250	828,984	4,069,644
2014 - 2018	3,361,736	7,220,471	3,917,166	4,626,529	19,125,902
2019 - 2023	1,834,300	6,817,488	2,633,902	7,386,512	18,672,202
2024 - 2028	394,326	4,633,661	724,186	7,716,339	13,468,512
Total	<u>\$ 10,380,569</u>	<u>\$ 26,247,294</u>	<u>\$ 12,046,168</u>	<u>\$ 23,703,706</u>	<u>\$ 72,377,737</u>

KISTA Bonds:

Year Ending June 30,	School District Portion		
	Interest	Principal	Total
2009	8,973	28,618	37,591
2010	7,971	24,775	32,746
2011	7,104	25,838	32,942
2012	6,200	26,819	33,019
2013	5,227	27,882	33,109
2014 - 2018	10,466	112,508	122,974
Total	<u>\$ 45,941</u>	<u>\$ 246,440</u>	<u>\$ 292,381</u>

Note E – Lease Obligations

The District was not entered into any material capital or operating leases as of June 30, 2008

Note F – Retirement Plans

The payroll for employees covered under the following plans are as follows:

The Teachers' Retirement Systems

Plan Description – The Harlan County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the *Kentucky Revised Statutes* (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Harlan County School System's total payroll for the year was \$24.2 million. The payroll for employees covered under KTRS was \$18,874,442. For the year ended June 30, 2008, the Commonwealth contributed \$2,065,995 in matching to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2008 were \$407,500, which represents those employees covered by federal programs.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601.

Participating employees contribute 5% of the creditable compensation. Employer contribution rates are intended to fund the normal cost of a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Board contributed \$670,000 of the employee's compensation during the fiscal year ended June 30, 2008. The Board's required contribution (both withholding and match) for pension obligations to CERS for the fiscal year ended June 30, 2008 has been contributed for the fiscal year.

Note G – Deficit Operating / Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Food Service Fund	<\$ 26,657>
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Note H – Transfer of Funds

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

For	From Fund	Amount	To Fund	Amount
Debt Service Payments Matching	General Fund	244,654	Debt Service Fund Special Revenue Fund	154,266 90,388
Construction	Special Revenue	175,000	Construction Fund	175,000
Construction	Construction Fund	210,639	Construction Fund	210,639
Debt Service Payments Construction	Debt Service Fund	4,695,981	Debt Service Fund Construction Fund	2,705,000 1,990,981
Debt Service Payments Construction	Non-Major Fund	2,154,745	Debt Service Fund Construction Fund	1,566,945 587,800
Construction Indirect Cost	Food Service Fund	405,445	Construction Fund General Fund	297,217 108,228

Note I – Commitments and Contingencies

Grant Programs

In the normal course of operations, the District received grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

Future Construction

The construction project at the Harlan County High School was nearing completion as of June 30, 2008. As of June 30, 2008 \$35.6 million dollars had been spent on construction and the project total estimated cost is \$39.0

COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

Note J – On-Behalf Payments

The State of Kentucky makes certain health insurance, life insurance, flexible spending, administrative fees and pension plan payments on behalf of the District for its employees. The District records these payments as both a revenue and expenditure in the General Fund and Food Service Fund based upon percentage of payroll. The total of the on-behalf payments for the fiscal year ended June 30, 2008 was \$5.1 million for the General Fund and \$169,139 for the Food Service Fund. The District is not legally responsible for these contributions.

Required Supplemental Information

Harlan County School District
Budgetary Comparison Schedules

Required Supplementary Information
For the year ended June 30, 2008

General Fund						
	Budgeted Amounts		Actual	Adjustments	Actual	Variance
	Original	Final	GAAP	Budget	Budget	with Final
			Basis	Basis	Basis	Budget
						Favorable
						(Unfavorable)
Revenues						
From local sources						
Ad valorem tax	\$2,955,337	\$3,110,000	\$ 3,283,540	\$ -	\$ 3,283,540	\$ 173,540
Sales & use tax	1,111,295	1,167,413	1,406,113	-	1,406,113	238,700
Penalties & interest on tax	-	-	38,588	-	38,588	38,588
Other tax	-	-	50,856	-	50,856	50,856
Earnings on investments	270,000	270,000	230,938	-	230,938	(39,062)
Other local revenues	-	-	24,762	-	24,762	24,762
State sources						
SEEK	18,468,100	19,927,406	19,866,522	-	19,866,522	(60,884)
Other	25,000	25,000	19,924	-	19,924	(5,076)
Expenditure Reimbursements	-	-	4,000	-	4,000	4,000
Revenue in lieu of tax	-	40,000	54,248	-	54,248	14,248
On behalf payments	-	-	5,325,906	(5,325,906)	-	-
Federal sources						
Reimbursements	60,201	60,201	83,195	-	83,195	22,994
Other revenues	-	-	1,622	-	1,622	1,622
Total revenues	22,889,933	24,600,020	30,390,214	(5,325,906)	25,064,308	464,288
Expenditures						
Instruction	13,378,132	13,650,917	16,494,358	(3,377,243)	13,117,115	533,802
Support services						
Student	869,492	1,003,850	1,648,702	(350,121)	1,298,581	(294,731)
Instruction staff	855,214	919,717	1,269,155	(262,632)	1,006,523	(86,806)
District administration	1,474,044	1,486,731	1,124,479	(48,272)	1,076,207	410,524
School administration	1,763,788	1,957,745	2,693,676	(557,275)	2,136,401	(178,656)
Business	540,983	555,103	539,183	(91,793)	447,390	107,713
Plant operation and maintenance	2,872,230	3,179,263	3,496,757	(359,295)	3,137,462	41,801
Student transportation	1,760,179	2,088,522	2,379,528	(279,275)	2,100,253	(11,731)
Community service activities	182	151	679	-	679	(528)
Debt Service	-	116,932	-	-	-	116,932
Total expenditures	23,514,244	24,958,931	29,646,517	(5,325,906)	24,320,611	638,320
Excess (deficit) of revenues over expenditures	(624,311)	(358,911)	743,697	-	743,697	1,102,608
Other Financing Sources (Uses)						
Gain (Loss) on sale of equipment	-	-	90,321	-	90,321	90,321
Operating transfers in	180,000	120,000	108,228	-	108,228	(11,772)
Operating transfers out	-	-	(244,654)	-	(244,654)	(244,654)
Total other financing sources (uses)	180,000	120,000	(46,105)	-	(46,105)	(166,105)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(444,311)	(238,911)	697,592	-	697,592	936,503
Fund balance, beginning	1,195,170	1,384,920	1,996,362	-	1,996,362	611,442
Fund balance, ending	\$ 750,859	\$ 1,146,009	\$ 2,693,954	\$ -	\$ 2,693,954	\$ 1,547,945

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Harlan County School District
Budgetary Comparison Schedules
 Required Supplementary Information
 For the year ended June 30, 2008

	Special Revenue Fund					Variance
	Budgeted Amounts		Actual	Adjustments	Actual	Budget
	Original	Final	GAAP	Budget	Budget	Favorable
Revenues			Basis	Basis	Basis	(Unfavorable)
From local sources						
Earnings on investments	\$ -	\$ -	\$ 5,049	\$ -	\$ 5,049	\$ 5,049
Other local revenues	32,917	12,000	33,559	-	33,559	21,559
State sources						
Other	6,843,550	2,222,266	2,011,552	-	2,011,552	(210,714)
On behalf payments	-	-	172,948	-	172,948	172,948
Federal sources						
Ristricted throught state	14,258,908	4,828,238	5,587,860	-	5,587,860	759,622
Intermediate agencies	-	-	72,355	-	72,355	72,355
Total revenues	<u>21,135,375</u>	<u>7,062,504</u>	<u>7,884,534</u>	<u>-</u>	<u>7,884,534</u>	<u>822,030</u>
Expenditures						
Instruction	16,885,808	5,483,074	5,817,144	-	5,817,144	(334,070)
Support services						
Student	145,492	145,492	274,102	-	274,102	(128,610)
Instruction staff	2,062,987	738,525	787,928	-	787,928	(49,403)
Business	-	-	60,128	-	60,128	(60,128)
Student transportation	258,304	95,007	169,509	-	169,509	(74,502)
Community service activities	1,904,104	661,950	691,111	-	691,111	(29,161)
Total expenditures	<u>21,256,695</u>	<u>7,124,048</u>	<u>7,799,922</u>	<u>-</u>	<u>7,799,922</u>	<u>(675,874)</u>
Excess (deficit) of revenues over expenditures	<u>(121,320)</u>	<u>(61,544)</u>	<u>84,612</u>	<u>-</u>	<u>84,612</u>	<u>146,156</u>
Other Financing Sources (Uses)						
Operating transfers in	-	-	90,388	-	90,388	90,388
Operating transfers out	(1,027)	(989)	(175,000)	-	(175,000)	(174,011)
Total other financing sources (uses)	<u>(1,027)</u>	<u>(989)</u>	<u>(84,612)</u>	<u>-</u>	<u>(84,612)</u>	<u>(83,623)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(122,347)</u>	<u>(62,533)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,533</u>
Fund balance, beginning	<u>93,150</u>	<u>(246,369)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,369</u>
Fund balance, ending	<u>\$ (29,197)</u>	<u>\$ (308,902)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,902</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Harlan County School District
Budgetary Comparison Schedules
 Required Supplementary Information
 For the year ended June 30, 2008

	Construction Fund					Variance Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
	Original	Final				
Revenues						
From local sources						
Earnings on investments	\$ 1,056,057	-	\$ 445,602	\$ -	\$ 445,602	\$ 445,602
Total revenues	<u>1,056,057</u>	<u>-</u>	<u>445,602</u>	<u>-</u>	<u>445,602</u>	<u>445,602</u>
Expenditures						
Facilities acquisition and construction	36,538,644	-	17,313,339	-	17,313,339	(17,313,339)
Total expenditures	<u>36,538,644</u>	<u>-</u>	<u>17,313,339</u>	<u>-</u>	<u>17,313,339</u>	<u>(17,313,339)</u>
Excess (deficit) of revenues over expendi	<u>(35,482,587)</u>	<u>-</u>	<u>(16,867,737)</u>	<u>-</u>	<u>(16,867,737)</u>	<u>(16,867,737)</u>
Other Financing Sources (Uses)						
Operating transfers in	2,404,617	-	3,261,637	-	3,261,637	3,261,637
Operating transfers out	-	-	(210,639)	-	(210,639)	(210,639)
Total other financing sources (uses)	<u>4,199,245</u>	<u>-</u>	<u>3,050,998</u>	<u>-</u>	<u>3,050,998</u>	<u>3,050,998</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(31,283,342)</u>	<u>-</u>	<u>(13,816,739)</u>	<u>-</u>	<u>(13,816,739)</u>	<u>(13,816,739)</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>18,091,521</u>	<u>-</u>	<u>18,091,521</u>	<u>18,091,521</u>
Fund balance, ending	<u>\$ (31,283,342)</u>	<u>\$ -</u>	<u>\$ 4,274,782</u>	<u>\$ -</u>	<u>\$ 4,274,782</u>	<u>\$ 4,274,782</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Note A – Budgets and Budgetary Accounting

Budget Policy and Practice

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The budget is presented to the District board for review. In June, the District council adopts the annual fiscal year budgets for District operating funds. Once approved, the District council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Special Revenue funds are budgeted on a project-length basis and are also subjected to the council review and approval process. By state law, the District's board must adopt a final budget no later than July 1. The District's board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and Special Revenue Fund are presented as Required Supplementary Information. The General Fund's final budgeted expenditures increased by \$1.7 million from the original budget. The changes from original to final budgets were not material in other funds.

Basis of Budgeting

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Instruction, Support Services, Community Service Activities, Facilities Acquisition and Construction and Debt Service. Budget revisions at this level are managed administratively and reported to the District board. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on a basis consistent with generally accepted accounting principles for all government funds, except for the Debt Service Fund. A legally adopted budget is not required for this fund. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Note B – Excess of Expenditures over Appropriations

The District did not budget appropriations, in the General Fund, for on-behalf payments provided by the Kentucky Department of Education because they were not measurable at the time of budgeting. Therefore, these expenditures were adjusted out of the actual basis to mirror actual budget basis for review.

As of June 30, 2008, expenditures exceeded appropriation in individual funds as follows:

Notes to the Required Supplementary Information - Continued

June 30, 2008

Appropriations Category	Excess Expenditures	Explanation
General Fund:		
Support services		
Student	\$ 294,731	Salary reclassification
School administration	178,656	Salary reclassification
Student transportation	11,731	Rise in transportation cost not budgeted for
Community service activities	528	
Special Revenue Fund:		
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Instruction	334,070	"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Support services		"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Student	128,610	"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Instruction staff	49,403	"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Business	60,128	"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Student transportaion	74,502	"unbudgeted" because of timing.
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Community service activities	29,161	"unbudgeted" because of timing.
Construction Fund:		
		Budgetary process of construction budgeting. The entire budget for the project is in the first year of the construction and all expenditures after that are
Facilities acquisition and construction	17,313,339	"unbudgeted" because of timing.

Other Supplemental Information

Harlan County School District

Combining Balance Sheet - Nonmajor Governmental Funds

For the year ended June 30, 2008

	Capital Outlay Fund	Building	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,900	\$ 134,933	\$ 136,833
Investments	-	599,457	599,457
Total assets	<u>\$ 1,900</u>	<u>\$ 734,390</u>	<u>\$ 736,290</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances			
Reserved for:			
Capital Outlay	1,900	734,390	736,290
Total fund balances	<u>1,900</u>	<u>734,390</u>	<u>736,290</u>
Total liabilities and fund balances	<u>\$ 1,900</u>	<u>\$ 734,390</u>	<u>\$ 736,290</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the year ended June 30, 2008

	Capital Outlay Fund	Building Fund	Total Nonmajor Funds
Revenues			
From local sources			
Ad valorem tax	\$ -	\$ 510,636	\$ 510,636
Earnings on investments	-	90,276	90,276
State sources			
Other	395,550	749,190	1,144,740
Total revenues	<u>395,550</u>	<u>1,350,102</u>	<u>1,745,652</u>
Expenditures			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>395,550</u>	<u>1,350,102</u>	<u>1,745,652</u>
Other Financing Sources (Uses)			
Operating transfers out	<u>(395,550)</u>	<u>(1,759,195)</u>	<u>(2,154,745)</u>
Total other financing sources (uses)	<u>(395,550)</u>	<u>(1,759,195)</u>	<u>(2,154,745)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>(409,093)</u>	<u>(409,093)</u>
Fund balance, beginning	<u>1,900</u>	<u>1,143,483</u>	<u>1,145,383</u>
Fund balance, ending	<u>\$ 1,900</u>	<u>\$ 734,390</u>	<u>\$ 736,290</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Budgetary Comparison Schedules

Other Supplementary Information

For the year ended June 30, 2008

	Capital Outlay Fund					Variance
	Budgeted Amounts		Actual	Adjustments	Actual	Budget
	Original	Final	GAAP	Budget	Budget	Favorable
			Basis	Basis	Basis	(Unfavorable)
Revenues						
State sources						
Other	\$ 402,000	\$ 396,060	\$ 395,550	\$ -	\$ 395,550	\$ (510)
Total revenues	402,000	396,060	395,550	-	395,550	(510)
Expenditures						
Debt Service	402,000	396,060	-	-	-	396,060
Total expenditures	402,000	396,060	-	-	-	396,060
Excess (deficit) of revenues over expenditures	-	-	395,550	-	395,550	395,550
Other Financing Sources (Uses)						
Operating transfers out	-	-	(395,550)	-	(395,550)	(395,550)
Total other financing sources (uses)	-	-	(395,550)	-	(395,550)	(395,550)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-
Fund balance, beginning	-	-	1,900	-	1,900	1,900
Fund balance, ending	\$ -	\$ -	\$ 1,900	\$ -	\$ 1,900	\$ 1,900

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Budgetary Comparison Schedules

Other Supplementary Information

For the year ended June 30, 2008

	Building Fund					Variance	
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Budget Favorable (Unfavorable)	
	Original	Final					
Revenues							
From local sources							
Ad valorem tax	\$ 487,514	\$ 510,636	\$ 510,636	\$ -	\$ 510,636	\$ -	
Earnings on investments	-	-	90,276	-	90,276	90,276	
State sources							
Other	797,952	750,815	749,190	-	749,190	(1,625)	
Total revenues	<u>1,285,466</u>	<u>1,261,451</u>	<u>1,350,102</u>	<u>-</u>	<u>1,350,102</u>	<u>88,651</u>	
Expenditures							
Debt Service	1,285,466	1,374,451	-	-	-	1,374,451	
Total expenditures	<u>1,285,466</u>	<u>1,374,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,374,451</u>	
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(113,000)</u>	<u>1,350,102</u>	<u>-</u>	<u>1,350,102</u>	<u>1,463,102</u>	
Other Financing Sources (Uses)							
Operating transfers out	-	-	(1,759,195)	-	(1,759,195)	(1,759,195)	
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,759,195)</u>	<u>-</u>	<u>(1,759,195)</u>	<u>(1,759,195)</u>	
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>(113,000)</u>	<u>(409,093)</u>	<u>-</u>	<u>(409,093)</u>	<u>(296,093)</u>	
Fund balance, beginning	<u>-</u>	<u>113,000</u>	<u>1,143,483</u>	<u>-</u>	<u>1,143,483</u>	<u>1,030,483</u>	
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 734,390</u>	<u>\$ -</u>	<u>\$ 734,390</u>	<u>\$ 734,390</u>	

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Harlan County Elementary Schools

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Transfers	Fund Balance June 30, 2008
Black Mountain Elementary	\$ 6,884	\$ 66,381	\$ 69,285	\$ -	\$ 3,980
Cawood Elementary	7,988	115,635	121,269	-	2,354
Cumberland Elementary	27,752	131,508	132,963	-	26,297
Evarts Elementary	24,736	146,746	142,670	-	28,812
Green Hills Elementary	5,584	36,919	37,843	-	4,660
Hall Elementary	35,318	49,041	60,688	-	23,671
Rosspoint Elementary	18,111	135,665	135,903	-	17,873
Wallins Elementary	29,250	141,578	137,456	-	33,372
Cumberland High School	5,773	190,798	194,254	-	2,317
Evarts High School	9,746	94,533	104,279	-	-
James A. Cawood High School	24,420	162,540	165,136	-	21,824
Total	<u>\$ 195,562</u>	<u>\$ 1,271,344</u>	<u>\$ 1,301,746</u>	<u>\$ -</u>	<u>\$ 165,160</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Cumberland High School

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Fund Balance June 30, 2008
Academics	\$ 9	\$ 3,374	\$ 3,305	\$ 78
Athletics	2,892	58,302	60,167	1,027
BETA	19	25,092	25,111	-
Boys Basketball	50	750	800	-
Boys Varsity	877	17,110	17,987	-
Business & Office	52	-	-	52
Computer Class	120	75	195	-
FBLA	42	1,653	1,695	-
Flower Fund	8	140	148	-
General Fund	742	14,638	14,487	893
Girls Basketball	-	8,126	8,126	-
Girls Varsity	-	11,280	11,280	-
Heritage Club	146	-	-	146
Home Economics	13	-	-	13
JROTC	309	767	1,076	-
Junior Class	79	7,762	7,841	-
Mileage	47	1,089	1,136	-
NHS	229	392	592	29
Pep Club	84	1,379	1,459	4
Senior Class	-	19,833	19,833	-
Senior Trip	-	11,766	11,766	-
Spanish	48	-	-	48
STLP Technology	7	-	-	7
Year Book	-	6,950	6,950	-
Youth Service Center	-	320	300	20
Total	<u>\$ 5,773</u>	<u>\$ 190,798</u>	<u>\$ 194,254</u>	<u>\$ 2,317</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Evarts High School

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Transfer In (Out)	Fund Balance June 30, 2008
Academic Team	\$ -	\$ -	\$ -	\$ -	\$ -
Art	167	-	-	(157)	10
Athletics	-	43,962	37,160	(9,687)	(2,885)
Band	6	-	-	-	6
Beta Club	-	-	-	-	-
Class of 2008	25	2,204	2,686	457	-
Class of 2009	-	4,512	4,198	40	354
Cheerleaders	-	6,175	6,287	112	-
Class of 2010	-	-	-	-	-
Chorus	-	-	-	-	-
Class of 2007	-	-	96	96	-
Computer Fund	-	-	-	-	-
Deca	-	-	-	-	-
Cross Country	-	-	-	-	-
FBLA	167	140	141	-	166
Flower Fund	26	-	-	-	26
General Fund	1,589	903	3,010	679	161
Journalism / Yearbook	72	12,772	12,972	128	-
Public Relations	213	2,179	2,452	164	104
Library	-	-	-	-	-
Spanish	212	-	-	(212)	-
Soda Interest	1,054	5,270	6,622	298	-
JROTC	689	2,320	2,620	240	629
High School Football	3,396	635	7,302	3,271	-
High School Girls Basketball	106	-	2,010	1,904	-
High School Boys Basketball	-	-	1,547	1,547	-
Track	210	-	1,131	1,051	130
Class A Tournament	-	-	-	-	-
Technical Student	632	1,210	1,097	-	745
Girls Softball	-	1,089	1,185	96	-
High School boys Baseball	-	1,954	2,030	76	-
Volleyball	-	1,112	1,145	33	-
Special Needs	84	-	-	(40)	44
Medical Office	-	-	-	-	-
Gear Up	-	-	-	-	-
Parent Volunteer Organizator	-	5,231	5,069	(96)	66
Dance Team	84	868	934	-	18
Europe Trip	-	-	-	-	-
Mefford Scholarship	874	-	874	-	-
Cats Awards	140	-	97	-	43
Pep Club	-	1,997	1,614	-	383
Total	<u>\$ 9,746</u>	<u>\$ 94,533</u>	<u>\$ 104,279</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Statement of Revenues, Expenditures and Changes in Fund Balance - James A. Cawood High School

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Transfer In (Out)	Fund Balance June 30, 2008
AP / PSAT Plan	\$ 153	\$ 1,129	\$ 1,044	\$ -	\$ 238
Art Club	87	1,851	2,238	300	-
Athletics	44	-	(383)	84	511
Band	58	-	23	-	35
Beta Club	353	4,113	902	(3,564)	-
Boys Basketball	-	9,180	6,101	(581)	2,498
Boys Concessions	30	1,640	1,670	-	-
Boys District Gate	-	12,640	6,699	(635)	5,306
Cheerleaders	2,487	12,646	15,118	(15)	-
Commerce	2,343	1,021	3,364	-	-
Cross Country	-	380	380	-	-
Dance Team	151	665	731	(85)	-
Distributed Ed	575	469	1,044	-	-
District Concessions	-	3,749	1,485	(564)	1,700
FBLA	340	4,274	4,614	-	-
FCCLA	84	14,029	14,076	-	37
Football	-	16,117	13,025	(214)	2,878
French 1 2 3	634	3,665	4,298	-	1
Future Educators	3	3,630	3,633	-	-
General Fund	11,478	9,562	18,665	3,219	5,594
Girls / Dist. Concessions	-	4,370	3,089	(100)	1,181
Girls / Dist. Gate	84	-	-	(84)	-
Girls Basketball	-	6,848	5,443	(1,405)	-
History Club	-	115	115	-	-
Home Ec. / Nance	59	2,312	2,363	-	8
Junior Class	236	16,427	16,471	80	272
Lance	27	310	337	-	-
Library	254	60	314	-	-
Marcee Players	280	-	193	-	87
National Honors	378	346	637	-	87
Parking	101	760	461	-	400
Pride / Awards	2	290	286	-	6
Snack Shack / Ice Cream	571	-	571	-	-
Soda	733	7,717	7,538	-	912
Volleyball	-	451	378	-	73
Y Club	-	7,830	8,730	900	-
Year Book	2,282	13,644	18,590	2,664	-
Youth Service	593	300	893	-	-
Total	<u>\$ 24,420</u>	<u>\$ 162,540</u>	<u>\$ 165,136</u>	<u>\$ -</u>	<u>\$ 21,824</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements	Total per CFDA / Cluster	Total Per Department
U.S. Department of Agriculture:						
<i>Passed Through State Department of Education:</i>						
Food Donation	10.550	-	\$ 142,699	\$ 142,699	\$ 142,699	
Total Donation						
School Breakfast Program	10.553	7760005-06	122,503	122,503		
School Breakfast Program	10.553	7760005-07	395,896	395,896		
National School Lunch Program	10.555	7750002-06	309,701	309,701		
National School Lunch Program	10.555	7750002-07	973,293	973,293		
State Match	10.555	7750008-07	27,253	27,253		
Total Child Nutrition Cluster					1,828,646	
Total U.S. Department of Agriculture						\$ 1,971,345
U.S. Department of Defense						
<i>Passed Through State Department of Education:</i>						
ROTC	12.000	-	-	26,108		
ROTC	12.000	-	-	36,705		
ROTC	12.000	-	-	72,355		
Total ROTC					135,169	
Total U.S. Department of Defense						135,169
U.S. Department of Justice						
<i>Passed Through State Department of Education:</i>						
U.N.I.T.E. (Unlawful Narcotics Investigation, Treatment and Education)	16.580	-	-	926		
U.N.I.T.E. (Unlawful Narcotics Investigation, Treatment and Education)	16.580	-	119,932	82,864		
Total U.N.I.T.E. (Unlawful Narcotics Investigation, Treatment and Education)					83,790	
Total U.S. Department of Justice						83,790

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements	Total per CFDA / Cluster	Total Per Department
U.S. Department of Education						
<i>Passed Through State Department of Education:</i>						
Title I Grant to Local Educational Agencies	84.010	3100002-05	2,712,214	34,695	2,677,936	
Title I Grant to Local Educational Agencies	84.010	3100002-06	2,687,461	606,579		
Title I Grant to Local Educational Agencies	84.010	3100002-07	2,553,088	1,450,105		
Title I Grant to Local Educational Agencies	84.010	-	-	284,836		
Title I Grant to Local Educational Agencies	84.010	-	217,795	216,983		
Title I Grant to Local Educational Agencies	84.010	-	-	36,839		
Title I Grant to Local Educational Agencies	84.010	-	25,560	15,094		
Title I Grant to Local Educational Agencies	84.010	-	74,544	32,803		
Total Title I Grant to Local Educational Agencies						
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-05	1,044,961	245,167	1,443,248	
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-06	1,044,147	1,043,732		
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-07	1,028,026	39,877		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-06	109,666	15,269		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-07	99,203	99,203		
Total Special Education Cluster						
Vocational Education - Basic Grants to States	84.048	-	3,673	3,100	70,833	
Vocational Education - Basic Grants to States	84.048	3100002-07	75,119	26,961		
Vocational Education - Basic Grants to States	84.048	-	-	2,610		
Vocational Education - Basic Grants to States	84.048	3100002-08	71,243	38,162		
Total Vocational Education - Basic Grants to States						
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	-	331	2,400	15,112	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	-	-	12,712		
Total Rehabilitation Services - Vocational Rehabilitation Grants to States						
Safe and Drug-Free Schools and Communities -- State Grants	84.186	3410002-05	55,836	21,183	87,464	
Safe and Drug-Free Schools and Communities -- State Grants	84.186	3410002-06	43,050	43,050		
Safe and Drug-Free Schools and Communities -- State Grants	84.186	3410002-07	42,502	23,230		
Total Safe and Drug Free Schools			150,000	20,922		
Twenty-First Century Community Learning Centers	84.287	3400002-08			20,922	
Total Twenty-First Century Community Learning Centers						

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements	Total per CFDA / Cluster	Total Per Department
State Grants for Innovative Programs	84.298	3500002-05	21,116	7,779		
State Grants for Innovative Programs	84.298	3500002-06	8,899	5,914		
Total State Grants for Innovative Programs					13,694	
Education Technology State Grants	84.318	3210002-06	26,937	25,521		
Education Technology State Grants	84.318	3210002-07	25,526	11,043		
Total Education Technology State Grants					36,564	
Reading First State Grant	84.357	-	12,500	3,729		
Reading First State Grant	84.357	-	25,000	17,331		
Total Reading First State Grant					21,060	
Rural Education	84.358	3140002-07	131,280	112,476		
Total Rural Education					112,476	
Improving Teacher Quality State Grants	84.367	3230002-05				
Improving Teacher Quality State Grants	84.367	3230002-06	564,028	385,127		
Improving Teacher Quality State Grants	84.367	3230002-07	553,714	193,600		
Total Improving Teacher Quality State Grants					578,727	5,078,035
Total U.S. Department of Education						
Corporation for National and Community Service						
Passed Through State Department of Education:						
Learn and Serve America School and Community Based Programs	94.004	1000002-07	-	92		
Learn and Serve America School and Community Based Programs	94.004	1000002-08	-	1,714		
Total Learn and Serve America School and Community Based Programs					1,806	
Total Corporation for National and Community Service						1,806
Total Expenditures of Federal Awards						\$ 7,270,145

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Harlan County School District

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Note A –Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B – Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2008, the District had received food commodities totaling \$142,699 in inventory. Since the district no longer tracks commodities individually, all commodities received are considered expended.

Harlan County School District

Board Members and Administration Personnel

For the Year Ended June 30, 2008

Board Members

Address

Arlene Brown

PO Box 166
Evarts, KY 40828

Gary Farmer

PO Box 35
Wallins, KY 40873

Brenda Henson

205 Walnut Lane
Harlan, KY 40831

Myra Mosley

339 Mosley Lane
Baxter, KY 40806

Pamela Sheffield

PO Box 524
Benham, KY 40807

Administrative Personnel

Timothy Saylor, Superintendent

Mike Howard, Finance Officer

Web-site

www.harlan.k12.ky.us

District Address

251 Ball Park Road
Harlan, Kentucky 40831
(606) 573-4330
(606) 573-5767 fax



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on An Audit of Financial Statements Performed in Accordance with Government Auditing
Standards**

To the Board of Education
Harlan County School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District, as of and for the year ended June 30, 2008 which collectively comprise the Harlan County School District's basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, or prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. (2008-01 thru 2008-04)

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

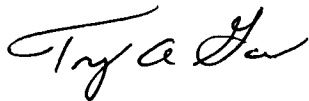
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or state audit requirements.

We noted certain matters that we reported to management of Harlan County School District in a separate letter dated October 31, 2008

Harlan County School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Harlan County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Board of Education, others within the entity, the Kentucky Department of Education and the Kentucky State Committee for School District Audits and is not intended to be and should not be used by anyone other than these specified parties.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

October 31, 2008



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Education
Harlan County School District

Compliance

We have audited the compliance of Harlan County School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Harlan County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Harlan County School District's management. Our responsibility is to express an opinion on Harlan County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Guide for Auditing Local School Districts' Fiscal Records*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harlan County School District's compliance with those requirements.

In our opinion, Harlan County School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Harlan County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harlan County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a

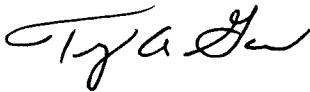
control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Harlan County School District's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Harlan County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

October 31, 2008

Harlan County School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable condition identified	
not considered to be material weakness?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness identified?	No
Reportable condition identified no	
Considered to be material weakness?	No

Type of auditor’s report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
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Identification of major programs:

Name of Federal Program	CFDA Number(s)
Food Donation	10.550
Food Service Cluster	10.553, 10.555, & 10.559

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as low-risk auditee?	Yes
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Harlan County School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section II – Financial Statement Findings

Matrix on Conditions:

Location	Condition			
	2008-1	2008-2	2008-3	2008-4
Board Office	X	X		
Cumberland HS			X	X
Evarts HS			X	
JACH			X	
Black Mountain				X
Cawood Elem			X	X
Cumberland Elem			X	X
Evarts Elem			X	X
Green Hills			X	
Hall Elem			X	X
Rosspoint Elem			X	X
Wallins Elem			X	X
Food Service		X		

2008-01 District accounting personnel

Condition: The District does not have accounting personnel that are adequately trained to prepare the financial statements and notes to the financial statements in the Government Accounting Standards Board (GASB) reporting format.

Criteria: Pursuant to GASB the District is to have personnel adequately trained to prepare the financial statements and notes to the financial statements in proper form.

Cause of Condition: Changes in the GASB as to who is to complete the financial statements.

Effect of Condition: The financial statement could be prepared not in accordance to GAAP or GASB standards.

Recommendation: It is recommended that the district continue to use the services of a CPA firm to compile the financial statements in the GASB format. Management staff members are highly capable of making all management decisions and are able to perform all management functions. The District has also designated an individual who possess suitable skill and knowledge to oversee the financial statements prepared in GASB format.

Response: The district will continue to ensure that there are qualified employees to oversee the financial statements prepared by a CPA in GASB format

2008-02 Purchase Order Use

Condition: Purchase orders are not properly being used.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

- Criteria: The District requires purchase orders to be used on all purchases made with the exception of recurring monthly bills. Purchase orders should be issued before the purchase of the items is obligated.
- Cause of Condition: Purchases are being initiated without proper approval.
- Effect of Condition: This could cause the District to purchase something that is not in the budget or could cause it to run over budget. It could also cause purchase of items that are not eligible to be paid for by certain funds.
- Recommendation: It is recommended that "Red Book" procedures be followed and that all purchases properly use purchase orders.
- Response: The District will reemphasize the importance of the procedure and do the necessary actions to correct this issue.

2008-03 Purchase Order Use – School Activity Funds

- Condition: Purchase orders are not properly being used.
- Criteria: The District and "Red Book" requires purchase orders to be used on all purchases made with the exception of recurring monthly bills. Purchase orders should be issued before the purchase of the items is obligated.
- Cause of Condition: Purchases are being initiated without proper approval.
- Effect of Condition: This could cause the District to purchase something that is not in the budget or could cause it to run over budget. It could cause the School Activity Fund to purchase items that are not in the budget or items that are unallowable to be purchased. It could even cause an individual activity account to have a negative ending balance due to the expenditure not being calculated for before it was incurred.
- Recommendation: It is recommended that "Red Book" procedures be followed and that all purchases properly use purchase orders.
- Response: The district will have a "Red Book" training update with all schools.

2008-04 Segregation of duties over bank deposits

- Condition: Proper segregation of duties are lacking on the control for bank deposits.
- Criteria: "Red Book" requires internal controls exist sufficient to ensure that bank deposits are deposited intact and daily (if over \$100). These controls should included, but are not limited to, (a) each individual check listed on deposit slip, (b) a second party reviewing the deposit slip to ensure that the deposit includes all receipts for the day and signing or initialing the slip, (c) someone other than the person responsible for filling out the deposit ticket, or its review having and having access to the accounting system, taking the deposit to the bank. These controls should also ensure that the deposits are easy to review.
- Cause of Condition: Controls consistent to those described in "Red Book" are not consistently being followed.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Effect of Condition: Funds could be misappropriated thru the manipulation of deposit tickets and the accounting system thus creating a system where there would not be a way to detect any such activity as a normal course of business.

Recommendation: It is recommended that "Red Book" procedures be followed and that a proper segregation of duties be instituted.

Response: The district will have a "Red Book" training update with all schools.

Section III – Federal Award Findings and Questioned Costs

There were no findings that related to the federal awards.

Harlan County School District

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2008

No finding noted during previous year.

Harlan County School District
Corrective Action Plan
For the Year Ended June 30, 2008

No finding noted for current year.



Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Management Letter

To the Board of Education
Harlan County School District

In planning and performing my audit of the financial statements of Harlan County School District for the year ended June 30, 2008, I considered the district's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comment and suggestions regarding those matters. A separate report dated October 31, 2008, contains my report on reportable conditions and material weaknesses in the district's internal control structure. This letter does not affect my report dated October 31, 2008, on the financial statements of the Harlan County School District.

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with various district personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

October 31, 2008

Harlan County School District
Schedule of Management Points
For the Year Ended June 30, 2008

Matrix on Conditions:

Location	2008-5	2008-6	2008-7	2008-8	2008-9	2008-10	2008-11	2008-12	2008-13	2008-14	2008-15	2008-16	2008-17	2008-18	2008-19
Cumberland HS	X	X													
Evarts HS	X	X	X							X	X	X			
JACH		X													X
Black Mountain	X	X			X				X		X	X			
Cawood Elem	X	X					X	X			X	X		X	
Cumberland Elem	X	X	X	X	X		X	X	X			X			X
Evarts Elem	X	X	X		X	X			X		X	X			X
Green Hills	X	X		X				X			X	X			
Hall Elem	X	X					X	X				X			
Rosspoint Elem				X	X	X	X	X				X	X	X	
Wallins Elem	X						X	X					X		

2008-05 Invoices not properly approved

- Condition: Invoices were not being properly approved for payment by the appropriate official.
- Criteria: "Red Book" requires that invoices be approved by payment by the proper official and noted on the invoice by signature or initials.
- Cause of Condition: This is caused by the official either not reviewing the appropriate paper work or by the official reviewing but not identifying this review by proper use of initials or signature.
- Effect of Condition: This could cause an invoice that was not complete or appropriate to be paid.
- Recommendation: It is recommended that "Red Book" procedures be followed and all invoices be reviewed by the appropriate officials and this noted by there signature or initials on each invoice.
- Response: The district will have a "Red Book" training update with all schools.

2008-06 Invoices are not properly mutilated

- Condition: Invoices are not being properly mutilated after payment.
- Criteria: "Red Book" requires that invoices need to be properly mutilated by placing "PAID", check date and check number on the invoice and the invoice filed in an organized manner by month in check order.
- Cause of Condition: This is caused by inconsistent implementation of "Red Book" policies.

Schedule of Management Points – Continued

For the Year Ended June 30, 2008

Effect of Condition: Invoices could be paid twice, thus causing a problem of retrieving a refund or not finding the double payment and thus causing a loss of funds.

Recommendation: It is recommended that “Red Book” procedures be followed and all invoices are marked PAID, check date and check number be placed on the invoices.

Response: The district will have a “Red Book” training update with all schools.

2008-07 Invoices

Condition: Invoices were not available for inspection for all expenditures.

Criteria: “Red Book” requires original vendor invoices or in cases where no invoices available, (i.e. referees) a standard invoice be kept.

Cause of Condition: This could be caused by inconsistent filing of invoices, or lack of keeping proper documentation.

Effect of Condition: This could cause improper payment made by the fund.

Recommendation: It is recommended that “Red Book” procedures be followed and that before a payment is approved for payment that all proper documentation be reviewed and that this documentation be kept and properly filed.

Response: The district will have a “Red Book” training update with all schools.

2008-08 Fund raiser documentation

Condition: Fund raiser documentation was not completed or not being properly completed.

Criteria: “Red Book” requires the approval form be filled out by the appropriate authorities. The reconciliation for is to be filled out after the fundraiser is complete and accurately by the sponsor and turned into the Central Fund Treasurer at the conclusion of the fundraising activities. The Central Fund Treasurer is to review the reconciliation and follow up on any discrepancies found.

Cause of Condition: The forms are not being completed by the appropriate individuals.

Effect of Condition: The use of the approval form for the fund raisers keep similar fundraising activities from being conducted at the same time and also allows the schools to keep up with what fundraiser are being conducted. The reconciliation are used to ensure all funds are properly accounted for.

Recommendation: It is recommended that “Red Book” procedures be followed and that the fundraiser approval form be used when a fund raising activity is approved and that the reconciliation form be used upon completion of the activity.

Response: The district will have a “Red Book” training update with all schools.

2008-09 Multiple receipt form usage

Condition: Multiple receipt forms are not being properly used.

Criteria: “Red Book” requires that students in the 3rd grade and over sign the multiple receipt form upon turning money into the teacher. Teachers may sign for students in the 2nd grade and below.

Schedule of Management Points – Continued

For the Year Ended June 30, 2008

Cause of Condition: Teachers are not having the students to sign the multiple receipt form or a pre-filled form is being used.

Effect of Condition: This creates a lack of documentation from the student that monies were turned into the teacher.

Recommendation: It is recommended that “Red Book” procedures be followed and that students from the 3rd grade and over sign the multiple receipt form and that teachers sign for students from the 2nd grade and under.

Response: The district will have a “Red Book” training update with all schools.

2008-10 Receipt filing

Condition: Receipts are not filed in numerical order.

Criteria: “Red Book” requires that all receipts be filed with all appropriate documentation and in numerical order.

Cause of Condition: Improper filing of documentation.

Effect of Condition: Receipts are not easily referred back to and documentation is not easily found.

Recommendation: It is recommended that “Red Book” procedures be followed and that receipts be filed with the appropriate documentation and in numerical order.

Response: The district will have a “Red Book” training update with all schools.

2008-11 Receipt documentation

Condition: Documentation is not available for all receipts.

Criteria: “Red Book” requires multiple receipt forms, F-SA-1, or sales forms be available as documentation for all receipts.

Cause of Condition: Improper filing of documentation or lack of attaining proper documentation from the individual turning in money.

Effect of Condition: Funds could be incomplete or could be appropriated to wrong fund.

Recommendation: It is recommended that “Red Book” procedures be followed and that a multiple receipt form, F-SA-1, or sales form be received with all funds that those forms be filed with the receipts in a way to be easily retrieved.

Response: The district will have a “Red Book” training update with all schools.

2008-12 Receipt completion

Condition: Receipts are not properly being completed.

Criteria: “Red Book” requires that receipts be written by the Central Fund Treasurer to the individual that is turning in money. Proper documentation by the individual should accompany the monies.

Schedule of Management Points – Continued

For the Year Ended June 30, 2008

Cause of Condition: Receipts are not being properly issued in the individuals name with proper documentation accompanying the money.

Effect of Condition: A lack of documentation could lead to inconsistent treatment of funds and the inability to trace funds.

Recommendation: It is recommended that “Red Book” procedures be followed and that receipts be written to the individual turning in the money and that those funds be accompanied by proper documentation.

Response: The district will have a “Red Book” training update with all schools.

2008-13 Check signatures

Condition: Checks are being issued with only one signature.

Criteria: “Red Book” requires internal control exist sufficient to ensure that checks are not written and distributed without two signatures to ensure correct payment amounts, vendor, etc.

Cause of Condition: Review of check before issuance did not find that checks only had one signature.

Effect of Condition: Funds could be appropriated without the principal or central fund treasurer’s knowledge.

Recommendation: It is recommended that “Red Book” procedures be followed and that all checks issued have two signatures.

Response: The district will have a “Red Book” training update with all schools.

2008-14 Deficit Fund Balance in School Activity Fund

Condition: Deficit fund balance present in individual school activity fund.

Criteria: “Red Book” requires that no individual school activity fund sub account end the fiscal year with a negative balance.

Cause of Condition: Overspending of an individual account leads to a negative fund balance.

Effect of Condition: The negative fund balance in essence “borrows” from the other funds to complete its activities

Recommendation: It is recommended that “Red Book” procedures be followed and that no activity fund sub account end the year with a deficit balance.

Response: The district will have a “Red Book” training update with all schools.

2008-15 Monthly Reports

Condition: The individual schools did not turn in their monthly report to the board in a timely manner.

Criteria: Pursuant to board policy the individual schools are to turn in their monthly financial statements to a designated board employee in a timely manner. This ensures the board adequate time to review the statements.

Cause of Condition: The board did not receive a copy of the monthly financial statement.

Schedule of Management Points – Continued

For the Year Ended June 30, 2008

Effect of Condition: This doesn't allow the board or board employees proper oversight of the school activity funds.

Recommendation: It is recommended that board policy be followed and that the school turn in monthly financial statements to the board in a timely manner.

Response: The district will have a "Red Book" training update with all schools.

2008-16 Annual Report

Condition: The individual schools did not turn in their annual report to the board in a timely manner.

Criteria: Pursuant to board policy the individual schools are to turn in their annual report to a designated board employee in a timely manner. This ensures the board adequate time to review the report.

Cause of Condition: The board did not receive a copy of the annual report.

Effect of Condition: This doesn't allow the board or board employees proper oversight of the school activity funds.

Recommendation: It is recommended that board policy be followed and that the school turn in the annual report to the board in a timely manner.

Response: The district will have a "Red Book" training update with all schools.

2008-17 Inventory Control Worksheet

Condition: Inventory control worksheet were not properly or completely filled out.

Criteria: "Red Book" requires that all schools that sale products complete an inventory control worksheet. This inventory control worksheet reconciles the amount of product received to the amount of product sold to the amount of income that should have been received to the actual amount received.

Cause of Condition: The inventory control worksheets were not properly completed.

Effect of Condition: By not completing the inventory control worksheet the school doesn't have proper control over the sale of its inventory products.

Recommendation: It is recommended that "Red Book" procedures be followed and that the inventory control worksheet be filled out.

Response: The district will have a "Red Book" training update with all schools.

2008-18 Ticket Sales

Condition: Ticket sales and reconciliations were improperly completed.

Criteria: "Red Book" requires that tickets be sold at all events. Further, it requires that a reconciliation be completed and signed by the ticket sales people.

Cause of Condition: There were either no tickets sold a events or the sales reconciliations were improperly completed.

Effect of Condition: This doesn't give the schools proper control over ticket sales to have oversight over the process.

Schedule of Management Points – Continued

For the Year Ended June 30, 2008

Recommendation: It is recommended that “Red Book” procedures be followed and that tickets be sold and reconciliations be completed at all events.

Response: The district will have a “Red Book” training update with all schools.

2008-19 Advance

Condition: Improper use of expense and reimbursement report.

Criteria: “Red Book” requires with and advance payment for travel or related activities that receipts documenting expenditures be returned to the central fund treasurer. These receipts are to then be reconciled to the amount advanced and any overage returned to the Central Fund Treasurer and documented with a receipt. While overages are reimbursed and documented with a check number.

Cause of Condition: Either the receipts were not turned into the central fund treasurer or the reconciliation was not properly completed.

Effect of Condition: Advances could be improperly used, overages not returned and deficits not reimbursed.

Recommendation: It is recommended that “Red Book” procedures be followed and that expense and reimbursement reports be properly completed.

Response: The district will have a “Red Book” training update with all schools.